
Energy Subsidies

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Energy subsidies come in many shapes and forms. Reducing them is a rare win-win. Both public budgets and the climate would profit. In this book chapter, Frans Oosterhuis and Katharina Umpfenbach are digging into the conundrum why energy subsidy reform remains slow across the world despite its obvious benefits.

Based on a stocktaking of the types, size and rationale of subsidies in the energy sector globally, the authors argue that energy subsidies are often introduced to tackle a set of social goals at the same time. In many cases, however, they are badly suited to reach these goals effectively. Energy subsidies, especially for fossil fuel, create incentives to use energy inefficiently; they contribute to path dependencies and invite freeriding, for example when middle-income households profit from low prices although they could afford energy at full market cost.

With the exception of well-designed subsidies for immature renewable energy technologies, there are thus several reasons to reform the subsidy regime in the energy sector. To avoid political backfire, reform should be based on thorough evaluation of the subsidy's effectiveness, clear and transparent communication and good timing. In Europe e.g., the current focus on austerity can be a window of opportunity for tackling energy subsidy reform.

The book [Paying The Polluter – Environmentally Harmful Subsidies and their Reform](#) can be ordered at Edward Elgar Publishing for £81.

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Katharina Umpfenbach
[Frans H. Oosterhuis](#)

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